



City Council Work Session on Cannabis Tax Rates and Regulations

November 12, 2019

Overview

- ▶ Background
- ▶ Local status update
- ▶ Tax rates
- ▶ Policy questions
- ▶ Staff recommendations
- ▶ Questions/Comments

Council Goals

- ▶ Place San Leandro on a firm foundation for long-term fiscal sustainability
- ▶ Advance projects and programs promoting sustainable economic development, including transforming San Leandro into a center for innovation

Highlights of Key Dates

- ▶ February 12, 2013: City Council holds special Town Hall meeting on cannabis policy
- ▶ December 16, 2013: City Council approves medical cannabis ordinance
- ▶ September 8, 2015: City Council awards first dispensary permit; Council directs staff to explore cannabis tax
- ▶ Winter/spring 2016: Rules Committee explores various tax measures
- ▶ July 18, 2016: City Council issues 2nd dispensary permit
- ▶ October 17, 2016: City Council issues 3rd dispensary permit
- ▶ November 8, 2016: San Leandro voters authorize Measures NN, OO, PP & Prop. 64
- ▶ March 20, 2017: City Council sets graduated local tax rate, starting at 6%
- ▶ April 24, 2017: Council hosts work session, authorizes manufacturing & lab testing
- ▶ March 18, 2019: City Council authorizes adult use retail sales and imposes Dec. 31, 2019 deadline to commence retail operations
- ▶ June 17, 2019: City Council postpones previously scheduled tax increase

Rationale For Local Cannabis Taxes

- ▶ Such taxes are very common in other cities
- ▶ Funding augments General Fund revenues
- ▶ All three retail permit awardees voluntarily offered gross receipts contributions
- ▶ Tax creates a level playing field within the City
- ▶ All three retailers also offer programs for low-income, terminally ill, or otherwise disadvantaged patients

Rationale For Flexible Local Tax Rate

- ▶ Ensuring local businesses maintain competitiveness with other businesses operating in neighboring communities
- ▶ Recognition of significant up-front capital costs
- ▶ Ensuring that cumulative federal, state, and local taxes do not incentivize the unregulated market

Currently Authorized Cannabis License Types

Use Type	Permit Cap	Authorized Businesses	Status
► Retail*	3	3 permits issued	1 open; 2 pending
► Manufacturing	5	1 issued, 3 in process	none yet fully operational
► Laboratory testing	none	1 issued	in process

► *SLMC allows retailers to conduct manufacturing, distribution, and delivery as ancillary uses

Regional Context on Local Taxes

<u>Jurisdiction</u>	<u>Retail</u>	<u>Manufacturing</u>	<u>Distribution</u>
Alameda County (unincorporated areas)	0%	0%	0%
City of Alameda	0%	0%	0%
Berkeley	5% Adult Use 2.5% Medicinal	5% Adult Use 2.5% Medicinal	5% Adult Use 2.5% Medicinal
Emeryville	3%	2%	1%
Hayward	6.00%	6.00%	6.00%
Oakland*	10% Adult 5% Medicinal 0.12% if <\$500k	10% Adult Use 5% Medicinal 0.12% if <\$500k	10% Adult Use, 5% Medicinal 0.12% if <\$500k
Richmond	5.00%	5.00%	5.00%
San Francisco (effective 1/1/21)	Exempt =<\$500K 2.5% =\$500K-\$1Mil 5.0% =\$1Mil+	Exempt =<\$500K 1% =\$500K-\$1Mil 1.5% =\$1Mil+	Exempt =<\$500K 1% =\$500K-\$1Mil 1.5% =\$1Mil+
San Jose	10%	10%	10%
San Leandro	6.00%	6.00%	6.00%
Santa Rosa	3%	1%	0%
Union City	4%	4%	2%

*City of Oakland exploring reduced tax rates

Other Taxes

- ▶ Statewide Tax: 15% excise tax
- ▶ Sales Tax: 9.75% at point of sale
- ▶ State Cultivation Tax
 - \$9.25 per dry-weight ounce of flowers
 - \$2.75 per dry-weight ounce of cannabis leaves
 - \$1.29 per ounce of fresh cannabis plant
- ▶ Federal Taxes: Vary, Rule 280E disallows retail business expense deductions

Current San Leandro Tax Schedule (applies to all permit types)

- ▶ 6% of gross receipts thru June 30, 2020
- ▶ 7% of gross receipts effective from July 1, 2020 thru June 30, 2022
- ▶ 8% of gross receipts effective July 1, 2022

Tax receipts in CY 2019:

- ▶ Q1 2019: \$11,118
- ▶ Q2 2019: \$42,182
- ▶ Q3 2019: \$82,623

Policy Question: Modify Local Tax rates?

Pros

Creates certainty for businesses

Potential for economic development/
business investment

Potential competitive advantage

Acknowledges challenging statewide
industry climate

Cons

Potential loss of tax revenue

Deviates from prior commitments
made by retail dispensaries

Minimal cost savings for retail
customers

Policy Question: Eliminate/Expand cap on manufacturing permits?

Pros

Cap was instituted as part of pilot study

Expands business opportunities

Opens door for larger-scale businesses
who might otherwise not have access

Cons

Potential risks from bad operators

Policy Question: Allow stand-alone distribution or processor permits?

Pros

Potential for economic development

Diversifies & augments GF revenue

Natural synergy with other businesses

Cons

Finite job creation

Increased vehicle trips

Potential security concerns

Policy Question: Explore Illegal cultivation fines?

Pros

Discourages illegal cultivation & associated impacts

Recoups city enforcement costs

Provides law enforcement additional tool

Cons

Requires administrative appeals process

Potentially impacts unwitting property owners

Staff Recommendations

Policy Question

- ▶ Consider eliminating scheduled tax increases?
- ▶ Consider lowering retail tax rate?
- ▶ Consider reducing tax rates for non-retail uses?
- ▶ Remove/modify permit cap on manufacturers?
- ▶ Consider allowing other permit types?
 - ▶ Type 11 - distribution
 - ▶ Type 13 - Distribution - transport only
 - ▶ Processor
- ▶ Consider adopting illegal cultivation fine?

Staff Recommendation

- Yes; retain 6% rate
- No; retain current 6% retail rate (for now)
- Yes, consider aligning rates with nearby cities
retail: 6%; manuf./labs: 3%; distributor/processor: 1%
- Yes, eliminate or modify cap
- Yes, allow additional permit types as shown
- Yes, explore illegal cultivation fines



Questions or Comments?